# FOOD INFORMATION

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Distribution: War Board Members, AAA Committeemen, Extension Editors, BAE Analysts, OD Marketing Reports Chiefs, SCS, FSA, FCA Regional Information Chiefs

Use: Background information for use in press, radio and other media to further Economic Stabilization Campaign.

## TOLL OF LAST FARM LAND BOOM

Farm foreclosures and related forced sales in the period between the wars have been estimated at about 2 million, or the equivalent of one-fourth to one-third of all farms in the country.

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## FARM LAND MARKET FACTS

### I. Indications of Inflationary Developments in the Farm Land Market

A. Farm land values are rising as rapidly as during the last war period.

1. Average per-acre values for the country on July 1, 1944, were 15 percent above the previous year and 42 percent above the 1935-39 average. On March 1, 1919, values were 40 percent above the 1912-14 average.

2. Much larger increases above the 1935-39 average occurred in many areas. Average values have increased more than 70 percent in Kentucky and Colorado; more than 60 percent in South Carolina, Indiana, and Tennessee; and more than 50 percent in Washington, Oregon, Idaho, Montana, Wyoming, New Mexico, Illinois, Arkansas, Mississippi, Michigan, Ohio, Georgia, and North Carolina.

3. Values on July 1, 1944, were above their 1917 levels in almost two-thirds of the States; above those of 1918 in almost one-half; and above 1919 in more than one-fourth. For the country as a whole, values were 17 percent above the 1912-14 average.

B. The volume of sales is at record high.

1. The volume of farm sales during the 12 months ended in March 1944 was one-fifth above the previous year, almost one-tenth above the previous peak reached in 1919, and almost double the 1935-39 and 1912-14 averages. Sales were higher the first quarter, and somewhat lower the second quarter of 1944 than during the corresponding quarters of 1943.

2. Farmers are buying approximately two-thirds and non-farmers one-third of the farms sold. Although an increasing proportion of farms is being sold by farmers, a substantial net movement of land into the hands of owner-operators continues.

C. Reselling after only a short period of ownership is increasing.

1. Resales of farms acquired within the last two years are averaging just over 10 percent of all sales; the range in the first half of 1944 was from 16 percent in the Pacific region to over 7 percent in the Northern Plains.

2. Currently, resales are running 20 percent or more of all sales in about one county in seven.

3. In the majority of cases, profits from resales have ranged from 20 to 30 percent.

D. Despite the large amount of cash being used to purchase farms, heavy debts are being built up on a significant number of farms as the result of sale.

1. Approximately one-half of the recorded sales are for cash. Down payments on the remaining half average about two-fifths of the purchase price, with a mortgage given for three-fifths.

2. Because of the large volume of sales, more people went into debt in 1943 to buy farms than for any year since 1920.

3. Many went heavily into debt, since mortgages amounted to 75 percent or more of the sale price in one-third, and 50 percent or more in three-fourths of the credit financed sales.

4. The average mortgage debt per acre on farms sold for credit has increased one-fourth in the last three years.

5. Over two-fifths of the loans to finance sales are being made by individuals, almost one-third by Federal land banks and insurance companies, one-fifth by commercial banks and the remaining one-seventh by State and local governments and others.

6. Many short-term loans are being used to finance the purchase of farms. About three-fifths of the purchase loans made by individuals and commercial banks are for terms of five years or less. Approximately one-third of the loans by such lenders make no provision for amortization.

E. The inflationary forces are strengthening.

1. The inflationary forces operating to bring about a disrupting farm land boom stem basically from conditions of high farm incomes and growing accumulations of surplus purchasing power. Cash income received by farmers has more than doubled in the last 5 years and in 1943 was by far the largest on record. In the summer of 1944, demand deposits of country banks in 20 leading agricultural States were more than 3 times those of 1939 and have been steadily increasing.

2. Current rates of return on farm land are high in relation to alternative investments; mortgage interest rates are about one-fourth under those prevailing before the last war; real estate taxes have been essentially unchanged in the last decade and are at levels about four-fifths above pre-War I and about two-thirds of the peak reached in the late twenties; and although prices paid by farmers for commodities bought have increased more rapidly

the past year than prices received for farm products, the operating costs of farmers since the beginning of the war have lagged behind income increases.

F. There is danger that farm land value increases may continue until seriously inflated value levels in many areas are reached.

1. War bond purchases, income tax increases, and commodity price controls have not been sufficient to prevent either a continuously rising volume of funds available for land purchase or constantly increasing land earnings.

2. The longer run forces influencing land values are such as to indicate the probability of a deflation in values following the cessation of war-connected market stimulants.

3. Such deflation would likely be accompanied by consequences about as disastrous as those following the last boom. Many returning servicemen and other young farmers who bought at inflated prices would become mortgage slaves, soil resources would be exploited, and foreclosures would be widespread.

## WHAT CAN BE DONE?

### Buyers, Sellers, Borrowers, and Lenders

1. Buyers should acquaint themselves with the dangers of buying farm land at inflated prices. This includes the realization that long term earning capacity provides the only sound basis for determining values; that the number of war income years remaining may be very limited; that debts must be paid with income from bad as well as good years; and that the financial success or failure of prospective buyers is dependent to a large extent upon purchase prices, debt obligations incurred and decisions to buy now or to postpone purchase.

2. When land prices have risen unduly, farmers will generally be better off in the long run to postpone purchase and use their wartime incomes to retire debts, purchase war bonds, and build up financial reserves to buy land later at safer price levels or to replace worn out equipment, for improvements and raised living levels after the war.

3. Present owner operators who wish to expand their operations might well lease land from others rather than buy land at inflated prices, and use increased incomes to improve present holdings instead of buying additional land.

4. Non-farmers should realize that farm properties under inexperienced and absentee management frequently produce very limited returns and should give serious consideration to other alternative investments, particularly the purchase of war bonds.

5. Buyers purchasing land at war prices should make heavier cash payments, use higher war incomes to reduce debts as rapidly as possible, and particularly avoid mortgages based on inflated values, short-term mortgages and inflexible mortgage provisions.

6. Elderly farmers wanting to retire and others interested in disposing of farm land should consider the advantages of sale in the present market. From the

seller's viewpoint, good prices can now be obtained and there is always the possibility of the bottom dropping from under the demand for land once hostilities cease. Substantial down payments should be required in order that the buyer may carry the farm at lower farm product price levels.

7. Farmers should guard against being enticed into selling by seemingly attractive offers in order to buy equally good land cheaper elsewhere. During the last boom, many farmers who thus sold for the purpose of switching farms frequently paid a much higher price for other land, purchased land of lower quality at the same price, or even bought their old farms back at an advanced price.

8. Lending agencies, including commercial banks and private investors, should use lone-time earning capacity values in making loans, and not increase their loans per acre on the basis of temporary advances in the prices of agricultural products above normal levels.

9. Unless buyers, borrowers and lenders are more cautious, sentiment for the application of emergency controls against farm real estate speculation and excessive debt is likely to continue increasing.

REFERENCE SOURCES

1. Circular No. 690, "The Farm Real Estate Situation, 1942-43." This publication presents basic data on wartime developments in the farm land market. 46 pages. Available from Office of Information, USDA, Washington 25, D. C.

2. The Farmer and the War No. 1 (revised), "Farm Land Values and the War." A leaflet discussing the current land market situation in light of the developments and consequences of the World War I land boom. 8 pages. Available from Office of Information, U. S. Dept. of Agriculture, about November 1.

3. Farm Credit Administration Circular E-29 (revised), "About That Farm You are Going to Buy," discusses facts to be considered in buying a farm. May be obtained from Div. of Information, Farm Credit Administration, Kansas City 8, Missouri.

4. "Current Developments in the Farm Real Estate Market." A periodic release (March, July, and November) giving the latest information on the farm land market developments. Div. of Information, Bureau of Agricultural Economics, Washington, D. C.

5. (Speeches by Secretary Wickard on the land market situation.) Press Service, Office of Information, USDA, Washington 25, D. C.

6. Annual reports of the Secretary of Agriculture 1942, 1943, and 1944. (Sections discussing the developments in the farm land market.) Available in Department and branch libraries.

7. Murray, W.G. "Land Boom Controls," Wartime Farm and Food Policy Pamphlet 9, 34 pages, Ames, Iowa, 1943. This pamphlet discusses possible measures to be taken to avoid the disastrous consequences of another farm land boom. Iowa State College Press, Ames, Iowa. 20¢

8. "Preventing Land Price Inflation in the Midwest," by North Central Land Tenure Committee. A pamphlet discussing the current land market situation and suggeste curbing programs. Available from The Farm Foundation, 600 S. Michigan Avenue, Chicago 5, Illinois, about November 1.